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Message Text

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ACTION COME-00

INFO OCT-01 EUR-12 NEA-10 ISO-00 EB-07 CIAE-00 INR-07

NSAE-00 TRSE-00 OMB-01 /038 W
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E.O. 11652:N/A
TAGS: BEXP,SA,BE
SUBJECT: COST ESCALATION CLAUSES IN SAUDI CONTRACTS

REF: BRUSSELS 8919,STATE 225084

1. FURTHER TO BRUSSELS REFTEL,EMBOFF DISCUSSED QUESTIONS RAISED DEPTEL CONCERNING INDEXATION CLAUSE INCLUDED IN EUROSYSTEMS CONTRACT WITH MR. CAUCHIE,CHAIRMAN OF THAT FIRM. HE STATED UNEQUIVOCALLY THAT SAUDI AUTHORITIES WERE RE-EXAMINING THEIR POLICY ON FIXED-COST/COST-PLUS CONTRACTS, AND HE WAS TOLD VERBALLY BY OFFICIALS OF MINISTRY OF FINANCE THAT SAUDI ARABIAN GOVERNMENT WOULD ADOPT A NEW SYSTEM. HE SAID HE WAS TOLD THAT,AS A COMPLIMENT TO HIM,THEY WOULD REFER TO IT AS THE "EUROSYSTEM" STANDARD FOR THE FUTURE. MR. CAUCHIE ADDED THAT IT HAD REQUIRED SOME FOUR MONTHS OF DISCUSSION AND NEGOTIATION TO DEVELOP THE INDEXING CLAUSE IN THIS CONTRACT.

2. THE EUROSYSTEM CONTRACT SETS UP A FORMULA BASED ON CERTAIN SERIES OF INDEXES FOR SAUDI ARABIA. THIS CORMULA, HOWEVER,WOULD APPLY TO THE FIRMS PROJECT ALONE THE CHIEF DIFFICULTY WAS IN OBTAINING FIGURES OF VALUE FOR SAUDI ARABIA. IT WAS COMPARATIVELY SIMPLE TO ARRIVE AT OFFICIAL INDEX FIGURES FOR DOLLAR COSTS AND/OR BELGIAN FRANC COSTS.IT WAS HOWEVER,A MUCH GREATER PROBLEM TO CALCULATE SAUDI COSTS. TO CITE AN EXAMPLE OF HOW THIS
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LATTER PROBLEM WAS RESOLVED,MR CAUCHIE REFERRED TO THE

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QUESTION OF SAUDI PORT CONGESTION,WHICH WAS INCLUDED IN
THE GENERAL TRANSPORT COSTS THE INDEX FIGURES WERE THEN
BASED N CERTAIN INTERNATIONAL SHIPPING RATES WHICH
TAKE INTO ACCOUNT PORT CONGESTION.

3. MR. CAUCHIE ADDED THAT HE WAS TOLD TODAY BY SEVERAL
SAUDI BUSINESSMEN THAT ANOTHER CONTRACT WHICH
THEY HAD NEGOTIATED ON BEHALF OF AN AMERICAN COMPANY ALSO
INCLUDED AN INDEXING CLAUSE.IT WAS THEREFOR HIS
IMPRESSION THAT SAUDI THINKING ON THIS ENTIRE QUESTION
HAD MOVED FORWARD.
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